

Message Text

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ACTION EA-09

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R 240351Z DEC 75
FM AMEMBASSY JAKARTA
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AMEMBASSY SEOUL
AMEMBASSY SINGAPORE
AMCONSUL HONG KONG
AMCONSUL MEDAN
AMCONSUL SURABAYA
AMCONSUL SYDNEY

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EO 11652: N/A
TAGS: BEXP ID
SUBJ: MAJOR PROJECTS AND CCP CAMPAIGN: INDONESIAN
CEMENT UPDATE REPORT

REF: A JAKARTA A-77, B JAKARTA 13478, C JAKARTA 14974,
D JAKARTA 13527, E JAKARTA 13683,

1. SUMMARY: SINCE REF A CEMENT SECTOR REPORT,
PRODUCTION DEMAND PROJECTIONS HAVE BEEN REVISED UPWARD,
AND SEVERAL PROJECTS APPARENTLY FIRMED UP. 1979 DEMAND
NOW PROJECTED AT 6.2-6.4 MILLION TONS AND PRODUCTION
VARIOUSLY ESTIMATED BETWEEN 6.1 AND 6.9 MILLION TONS.
APPARENT RESULTING SUPPLY/DEMAND BALANCE HAS LED GOI TO
ANNOUNCE CESSATION FURTHER LICENSING CEMENT PLANTS. EMBASSY
PREDICTS THAT MANY PREVIOUSLY LICENSED PROJECTS STILL AT
EARLY PLANNING STAGES WILL ALSO STOP DEVELOPMENT, AT LEAST UNTIL
MARKET INCREASES AND INDONESIA OVERCOMES CURRENT FINANCIAL
PROBLEMS. END SUMMARY

2. MANY OF PROPOSED PROJECTS DISCUSSED REF A HAVE NOW
BECOME FIRMLY COMMITTED OR ARE WELL ON WAY BECOMING SO.
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A. P T SEMEN CIBINONG-PHASE I 500,000 TON PLANT CAME

ON STREAM AUGUST 1975. PHASE II 700,000 TON EXPANSION DESIGN/CONSTRUCTION CONTRACT AWARDED TO KAISER ENGINEERS, AND ARRANGEMENTS FOR OPIC INSURANCE NOW BEING FINALIZED.

B. P T DISTINCT INDONESIA CEMENT ENTERPRISE (DICE)- PHASE I 500,000. TON PLANT CAME ON STREAM AUGUST 1975, PHASE II 500,000 EXPANSION NOW UNDER CONSTRUCTION BY JAPANESE FIRMS.

C. P T SEMEN GRESIK-REVISED EXPANSION PLAN NOW CALLS FOR CONSTRUCTION ONE MILLION TONS NEW DRY PROCESS CAPACITY, WITH EXISTING 500,000 TON PLANT REMAINING WET PROCESS. THUS RESULTING TOTAL CAPACITY WILL BE 1.5 MILLION TONS. \$114 MILLION CONSTRUCTION CONTRACT AWARDED TO MORRISON-KNUDSEN. 40 PERCENT EXIM FINANCED. WORK BEGINS IMMEDIATELY.

D. P T BATURAJA-REPORTEDLY 29 BIDDERS HAVE RESPONDED TO PREQUALIFICATION INVITATION, BUT EMBASSY UNDERSTANDS ONLY ONE AMERICAN OWNED FIRM, AUSTIN ANDERSON OF SYDNEY, AUSTRALIA, IS AMONG GROUP. UNDERSTAND LIST WILL BE TRIMMED TO ABOUT NINE FIRMS WHO WILL BE INVITED BID ON 500,000 TON ADB FINANCED PROJECT.

E. P T SEMEN PADANG-EXISTING PLANT NOW EXPANDED TO 330,000 TON CAPACITY. MEANWHILE, SEMEN PADANG HAS TAKEN OVER FULL OWNERSHIP AND RESPONSIBILITY FOR 500,000 TON INDARUNG INDAH PLANT (IBNU SUTOWO OWNED P T ANAI INDAH NO LONGER INVOLVED), THUS INCORPORATING PROJECT INTO SEMEN PADANG'S OWN EXPANSION PROGRAM. REFS B AND C INDICATE TIED CANADIAN EDC FINANCING IMMINENT.

F. P T SEMEN HUSANTARA CILACAP-DIFFICULTIES OVERCOME AND PROJECT CONSTRUCTION BEGAN JUNE 1975 UNDER JAPANESE DIRECTION. PROJECTED CAPACITY 500,000 TONS.

G. P T SEMEN TONASA-REF C DESCRIBES PROGRESS BEING MADE TOWARD EUROPEAN AND POSSIBLE CANADIAN FINANCING FOR 500,000 TON EXPANSION OF GOI OWNED TONASA PLANT. WHILE THIS PROJECT SOMEWHAT LESS FAR ALONG THAN PROJECTS LISTED ABOVE, EMBASSY EXPECTS STRONG GOI BACKING WILL RESULT IN SUCCESSFUL PACKAGE SOON. PROPOSED JOINT VENTURE "AMTUMBA" PROJECT NO LONGER ACTIVELY DISCUSSED.

H. P T CEMENT CIREBON-CIREBON STILL HAS ITS DIFFICULTIES AND CONTINUES SEEK SATISFACTORY FINANCIAL PACKAGE; HOWEVER, PROJECT REPORTEDLY HAS SOME OF SAME UNCLASSIFIED

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HIGH LEVEL POLITICAL BACKING WHICH ENABLED DICE AND CILACAP OVERCOME SUBSTANTIAL HURDLES AND BECOME THE ONLY 100 PERCENT PRIVATELY OWNED PROJECTS TO REACH ACTUAL IMPLEMENTATION. CIREBON FEASIBILITY STUDY ALSO APPARENTLY VIABLE, AND SUBSTANTIAL DEMAND IS PROJECTED FOR THAT AREA OF JAVA. THUS ODDS ARE GOOD THAT CIREBON PROJECT WILL EVENTUALLY BE REALIZED. IF P T CIREBON IS NOT RPT NOT DEVELOPED, SOME OTHER 500,000

TON PROJECT WWOULD BE NEEDED ON JAVA TO MEET AREA DEMAND
REQUIREMENTS.

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3. TOTAL PRODUCTION CAPACITY OF THE EIGHT RELATIVELY FIRM
PROJECTS LISTED ABOVE (A-G) WOULD EQUAL 6.1 MILLION TONS IN
1979. ADDING CIREBON OR A SIMILAR SIZED ALTERNATIVE PROJECT
ON JAVA WOULD RESULT IN 1979 PRODUCTION OF 6.6 MILLION TONS.
SUCH CAPACITY WOULD ALONE EXCEED PROJECTED 1979 DOMESTIC
DEMAND BY ABOUT 200-400 TONS. FOR THIS REASON, EMBASSY
EXPECTS DEVELOPMENT OF OTHER NEW CEMENT PROJECTS TO BE
DELAYED UNTIL AT LEAST 1977, PARTICULARLY IN VIEW
EMERGING SHORTAGE GOI PROJECT DEVELOPMENT FUNDS AS RESULT
RECENT PERTAMINA FINANCIAL DIFFICULTIES. AFTER 1977 NEW
PROJECT DEVELOPMENT SHOULD GRADUALLY RESUME TO MEET PROJECTED
DOUBLING OF DEMAND BETWEEN 1979 AND 1984. WHEN DEVELOP-
MENT DOES RESUME AGAIN, VARIOUS PROJECTS LISTED REF A
MAY BE RESURRECTED. MOST LIKELY CANDIDATES WOULD
BE ONE OF THE NORTH SUMATRA PROJECTS (PROBABLY WITH SEMEN
PADANG PARTICIPATION) AND THE TIMOR PROJECT, PLUS AT LEAST
ONE ADDITIONAL JAVA PROJECT.

4. FOR POLITICAL REASONS, TIMOR PROJECT COULD BE IMPLEMENTED
EVEN SOONER. HOWEVER, GOI PLANS EXPORT TIMOR PLANT OUT-

PUT TO NORTH COAST AUSTRALIA AND IS THEREFORE HOPING FIND
AUSTRALIAN JOINT VENTURE PARTNER, A NOT RPT NOT ENTIRELY
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SANGUINE PROSPECT IN VIEW RECENT REPORTS OF AUSTRALIAN
CEMNET INVESTMENT IN THEIR OWN NORTH COAST AREA. SIMILARLY,
RECENT RUMORS HERE SUGGEST THAT SOME NORTH SUMATRA PROJECT
(EITHER MEDAN OF ACEH AREA) IS IMMINENT. HOWEVER, CURRENT
MARKET PROJECTIONS FOR NORTH SUMATRA WOULD NOT RPT NOT
SUPPORT ECONOMIC SIZE 500,000 TON PLANT, AND SEMEN PADANG
OFFICIALS CONTEND THEY CAN SHIP FROM PADANG TO NORTH SUMATRA
PORTS AT CHEAPER COST THAN PROPOSED NORTH SUMATRA PLANTS WOULD
BE ABLE DELIVER, DUE INLAND LOCATIONS AND HIGHER INFRASTRUCTURE
COSTS THESE PLANTS. SEMEN PADANG INTENDS CONTINUE
SUPPLYING NORTH SUMATRA FROM PADANG SITE UNTIL SUCH TIME
AS MARKET JUSTIFIES NORTH SUMATRA PLANT, WHICH PADANG
ITSELF PLANS BUILD, PROBABLY 1979-80. PROPOSED ITT SOUTH
KALIMANTAN PROJECT HAS BEEN DROPPED, AND EMBASSY HAS
RECENTLY HEARD VERY LITTLE ABOUT OTHER PROPOSED PROJECTS
MENTIONED REF A.

5. AS NOTED REF D, GOI IS PLANNING NATIONAL CEMENT
DISTRIBUTION SYSTEM TO HANDLE OUTPUT OF NINE PROJECTS
LISTED ABOVE. SYSTEM WILL REQUIRE ESTIMATED \$70 MILLION
TOTAL INVESTMENT TO BE MADE JOINTLY BY CEMENT DISTRIBUTION
FIRMS AND NEWLY FORMED NATIONAL SHIPPING CORPORATION, P T
PANN. DISTRIBUTION SYSTEM PLAN NOT RPT NOT YET AVAILABLE
AND MAY ONLY EMERGE PIECEMEAL IN FORM OF INDIVIDUAL
COMPANY INVESTMENTS LIKE RECENT SEMEN GRESIK ANNOUNCED
PLAN TO BUILD \$6 MILLION STORAGE AND BAGGING FACILITIES.
IN ORDER PURSUE THESE OPPORTUNITIES AS THEY ARISE,
EMBASSY WOULD STILL APPRECIATE INFORMATION REQUESTED REF D
RE US INDUSTRY CAPABILITY AND INTEREST SUCH DISTRIBUTION
SYSTEM FACILITIES.

6. IN LIGHT ABOVE ANALYSIS, EMBASSY REITERATES REF E
RECOMMENDATIONS THAT CCP CEMENT CAMPAIGN BE TERMINATED.
US FIRMS HAVE SUCCESSFULLY WON CONSTRUCTION CONTRACTS
FOR COMBINED 1.5 MILLION TONS CEMENT CAPACITY WITH
POSSIBILITY STILL ALIVE THAT AUSTIN ANDERSON MAY BE SUCCESSFUL
ON 500,000 TON BATURAJA PROJECT. SINCE CCP CAMPAIGN HAS
THUS MET ITS OBJECTIVES AND SINCE FURTHER CONTRACTS ARE
UNLIKELY UNTIL NEXT MAJOR EXPANSION PHASE (EXPECTED 1977/78),
EMBASSY BELIEVES US PROMOTIONAL EFFORTS SHOULD NOW
FOCUS ON EQUIPMENT NEEDED DISTRIBUTE EXPANDED
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PRODUCTION. EMBASSY THEREFORE PLANS PROPOSE NEW CCP
CAMPAIGN ON MATERIALS HANDLING EQUIPMENT.
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